

# *Office of the State Auditor*

## *Division of State Audit*

### Department of Career and Technical Education Bismarck, North Dakota

Audit Report for the  
Biennium June 30, 2007  
Client Code 270

*Robert R. Peterson*  
*State Auditor*



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## *Transmittal Letter*

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April 15, 2008

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Mr. Wayne Kutzer, Director

We are pleased to submit this audit of the Department of Career and Technical Education for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Andrea Wike. Delan Hellman was the staff auditor. Fred Ehrhardt, CPA was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-3647. We wish to express our appreciation to Director Kutzer and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## **INTRODUCTION**

There are nine members of the State Board for Career and Technical Education (State Board). They include six individuals who are appointed by the Governor; the remaining three are the elected Superintendent of Public Instruction, the appointed Chancellor of Higher Education, and the appointed Executive Director of Job Service North Dakota.

The State Board appointed Wayne Kutzer as State Director and Executive Officer of Career and Technical Education as of July 1, 2000. The duties, terms of office, and compensation of the Director are determined by the State Board. The Director enforces the rules and regulations which the State Board may adopt and prepares reports concerning Career and Technical Education as required by the State Board.

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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### *1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Department of Career and Technical Education in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

### *3. Was internal control adequate and functioning effectively?*

Other than our finding addressing "Fraud Risk Assessment/Control Activities" (see page 11), we determined internal control was adequate.

### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

The Department of Career and Technical Education has implemented all recommendations included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

No, a management letter was not issued.

### **LAFRC AUDIT COMMUNICATIONS**

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Department of Career and Technical Education's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Department of Career and Technical Education.

# *Audit Objectives, Scope, and Methodology*

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## *Audit Objectives*

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The objectives of this audit of the Department of Career and Technical Education for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Department of Career and Technical Education's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Department of Career and Technical Education and are they in compliance with these laws?
3. Are there areas of the Department of Career and Technical Education's operations where we can help to improve efficiency or effectiveness?

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## *Audit Scope*

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This audit of the Department of Career and Technical Education is for the biennium ended June 30, 2007. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Department of Career and Technical Education's sole location is its central office which will be included in the audit scope.

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## *Audit Methodology*

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To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer assisted auditing techniques. These procedures were used to identify high risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently.



Nonstatistical sampling was used and the results were projected to the population. Further where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) ERP system. Given the complexity of the state's accounting system significant evidence was obtained from ConnectND.
- Observed Department of Career and Technical Education's processes and procedures.

In aggregate there were not any significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

## ***Management's Discussion and Analysis***

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The accompanying financial statements have been prepared to present the Department of Career and Technical Education's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by Department of Career and Technical Education's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the biennium ended June 30, 2007, operations of the Department of Career and Technical Education were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

### ***FINANCIAL SUMMARY***

Revenues consisted primarily of federal funds, as well as conference registration fees for the annual North Dakota Professional Development Conference held during the first week in August each year and annual license renewal fees from private postsecondary institutions. These all remained fairly constant for the Department of Career and Technical Education, decreasing only slightly. Total revenues were \$5,033,902 for the year ended June 30, 2007 as compared to \$5,079,128 for the year ended June 30, 2006. A majority of intergovernmental revenue received is reimbursement from the federal government, in the amounts of \$4,645,963 for the year ended June 30, 2006 and \$4,657,398 for the year ended June 30, 2007.

Total expenditures for the Department of Career and Technical Education were \$14,050,836 for the year ended June 30, 2007 as compared to \$12,903,380 for the prior year. The increase in total expenditures for the audited period reflects primarily the Career and Technical Education grants and other grants (which also account for 85% of total expenditures in both years). All other expenditures remained fairly constant.

## **ACCOMPLISHMENTS**

### **Virtual Area Career and Technology Centers**

The Department of Career and Technical Education proposed a plan and received legislative funding to establish two new secondary career and technology centers. These centers will focus on virtual delivery of Career and Technical Education programming to students in outlining districts. We currently have five area centers in the state. These will be the first centers that have been approved and funded since 1974. They are targeted for the western part of the state where access to quality Career and Technical Education programs is limited. These new centers will become operational for the 2008-2009 school year.

### **Transition to Teaching**

The Department of Career and Technical Education instituted a Transition to Teaching program to license industry people as well as teachers from different disciplines as career and technical education teachers. This will play a huge role in meeting both the demand for industry experienced teachers as well as addressing the teacher shortage. Prior to this program a teacher had to take student teaching and not be employed or receive wages during that time. Now an individual in the program will have the benefit of two mentors, receive teacher education classes, and be working for a school district. It will make recruiting teachers from local communities much easier and address the severe teacher shortage issue that all schools face in North Dakota. The program has been used by the largest and smallest school districts in the state because of the difficulty in finding teachers.

### **Virtual Career and Technical Education Programming**

The Department of Career and Technical Education assisted Bismarck Public Schools with piloting a new virtual electronics course for high school students. This Career and Technical Education course has been traditionally delivered face-to-face but through this pilot it will be able to be delivered on-line. Special accommodations had to be made for the lab experiences and the extra assistance that students would require at the remote location. Although academic classes have been delivered on-line, this blended model of hands-on and on-line will revolutionize many traditional Career and Technical Education courses making them available to students at remote schools. This method will be incorporated into the new virtual area centers that will be started soon.

## *Financial Statements*

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### **STATEMENT OF REVENUES AND EXPENDITURES**

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b><u>Revenues and Other Sources:</u></b>		
Intergovernmental	\$ 4,944,918	\$ 4,989,729
Fees	75,638	78,622
Contributions and Private Grants	11,000	10,500
Miscellaneous General Revenue	2,347	277
<b>Total Revenues and Other Sources</b>	<u>\$5,033,902</u>	<u>\$ 5,079,128</u>
<b><u>Expenditures and Other Uses:</u></b>		
Grants, Benefits, and Claims	\$ 12,052,108	\$ 11,002,277
Salaries and Benefits	1,500,769	1,383,201
Travel	136,018	147,983
Professional Development	118,058	149,908
Fees, Services, and Repairs	67,277	41,510
Supplies	53,720	41,380
IT Services	50,677	48,525
Rental and Leases	23,579	23,393
Equipment	23,273	36,317
Other Operating	25,357	28,887
<b>Total Expenditures and Other Uses</b>	<u>\$ 14,050,836</u>	<u>\$12,903,380</u>

## STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2007

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 3,173,797	\$ 0	\$ 3,173,797	\$ 2,883,970	\$ 289,827
Operating Expenses	1,024,858		1,024,858	784,191	240,667
Grants	21,500,116		21,500,116	20,936,312	563,804
Grants-Postsecondary	357,452		357,452	357,452	
Adult Farm					
Management	725,760		725,760	512,836	212,924
Workforce Training	1,350,000		1,350,000	1,350,000	
<b>Totals</b>	<u>\$ 28,131,983</u>	<u>\$ 0</u>	<u>\$ 28,131,983</u>	<u>\$ 26,824,761</u>	<u>\$ 1,307,222</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 16,840,786	\$ 0	\$ 16,840,786	\$ 16,840,786	
Other Funds	11,291,197		11,291,197	9,983,975	\$ 1,307,222
<b>Totals</b>	<u>\$ 28,131,983</u>	<u>\$ 0</u>	<u>\$ 28,131,983</u>	<u>\$ 26,824,761</u>	<u>\$ 1,307,222</u>

### Expenditures Without Appropriations Of Specific Amounts:

Statewide Conference Fund is nonappropriated in accordance with OMB Policy 211. (\$129,455 of expenditures for this biennium.)

## *Internal Control*

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In our audit for the biennium ended June 30, 2007, we identified the following areas of the Department of Career and Technical Education's internal control as being the highest risk:

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### Internal Controls Subjected To Testing

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- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control are published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was not adequate noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identify the following significant deficiency in internal control.

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### **FRAUD RISK ASSESSMENT/CONTROL ACTIVITIES**

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#### Finding 07-1

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The Department of Career and Technical Education does not have a system in place to identify possible instances of fraud or fraudulent activities in the state's financial and operational areas.

The most important guidance relating to internal control is contained in *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This guidance dictates that a Fraud Risk Assessment program be established and practiced to identify risks of fraudulent type activities, including when special circumstances

arise, when changing operating environments, and for restructuring. In addition, the Department of Career and Technical Education does not have the necessary control activities designed/documented to ensure significant fraud exposures are identified and mitigated. Management must design the necessary internal controls to ensure that each of the significant fraud exposures identified during the risk assessment process are adequately mitigated.

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Audit Recommendation and  
Agency Response

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**Recommendation:**

We recommend the Department of Career and Technical Education:

- Establish and perform a fraud risk assessment on a recurring basis.
- Design and document the necessary control activities to ensure that each significant fraud exposure identified during the risk assessment process has been adequately mitigated, including background investigations.

***Department of Career and Technical Education Response:***

*The Department of Career and Technical Education will develop and implement Risk Assessment Policies and Procedures as soon as OMB develops the guidelines for agencies to use. We understand that OMB is in the process of developing a template and have decided to wait until it is released so that we are in alignment with those requirements and all state agencies.*

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2007, we identified and tested Department of Career and Technical Education's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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### *Legislative Intent Included In Our Audit Scope*

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- Proper use of the Authorized Fee Fund, which is used to account for the fees provided to the Board for Career and Technical Education upon application and renewal for authorization to operate a postsecondary educational institution.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations (2005 North Dakota Session Laws chapter 47).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that have occurred or are likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.



## *Operations*

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This audit did not identify areas of the Department of Career and Technical Education's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.